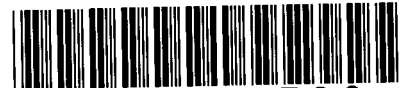


ORIGINAL



0000067780

MEMORANDUM

36

TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

EA for E CJ

DATE March 14, 2007

RE: STAFF REPORT FOR ASHCREEK WATER COMPANY (DOCKET NOS. W-02494A-06-0561 & W-02494A-06-0562)

Attached is the Staff Report for Ashcreek Water Company's applications for a permanent rate increase and a financing approval. Staff recommends approval of its rates and charges. Staff further recommends approval of the financing.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 19, 2007.

EGJ:CSB:red

Originator: Crystal S. Brown

Attachment: Original and sixteen copies

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Service List for: Ashcreek Water Company
Docket Nos. W-02494A-06-0561 & W-02494A-06-0562

Mr. Bevan Barney
Interim Manager
Post Office Box 825
Thatcher, Arizona 85552

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
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Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**ASHCREEK WATER COMPANY
DOCKET NOS. W-02494A-06-0561 & W-02494A-06-0562**

**APPLICATION
FOR A
PERMANENT RATE INCREASE
AND
FINANCING AUTHORITY**

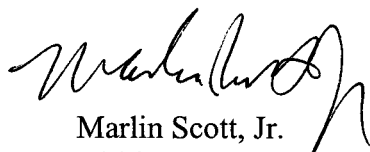
March 14, 2007

STAFF ACKNOWLEDGMENT

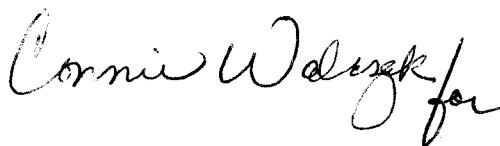
The Staff Report for Ashcreek Water Company (Docket Nos. W-02494A-06-0561 & W-02494A-06-0562) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's revenue requirement, rate base, rate design, and financing recommendations. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Crystal S. Brown
Public Utilities Analyst V



Marlin Scott, Jr.
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY OF
ASHCREEK WATER COMPANY
DOCKET NOS. W-02494A-06-0561 AND W-02494A-06-0562**

Ashcreek Water Company ("Ashcreek" or "Company") is a limited liability company. It is located approximately two and one-half miles south of Pima and three miles west of Thatcher in Graham County, Arizona.

The Company proposed total operating revenue of \$45,232, an increase of \$10,477, or 30.15 percent above the Company's test year revenue of \$34,755. Staff recommends total operating revenue of \$44,208, an increase of \$10,237, or 30.13 percent above the Staff adjusted test year revenue of \$33,971. The Company's proposed rates would increase the typical residential bill with a median usage of 5,750 gallons, from \$27.26 to \$30.61 for an increase of \$3.35 or 12.3 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 5,750 gallons, from \$27.26 to \$30.76 for an increase of \$3.50 or 12.8 percent.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule CSB-4. Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff recommends that the Company be ordered to capitalize rather than expense costs incurred for service lines and meter installations by recording them in the proper plant accounts, in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

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ATTACHMENT

Engineering Report for Rate Application	Attachment
Engineering Memorandum for Financing Application.....	Attachment

Fact Sheet

Company:

Current Rates: Decision No. 55745, dated September 25, 1987

Type of Ownership: LLC

Location: The Company is located approximately two and one-half miles south of Pima and three miles west of Thatcher in Graham County, Arizona. The Company is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: October 6, 2006

Current test year Ended: December 31, 2005

Prior test year Ended: December 31, 1991 (CC&N initial rates, 5th year projection)

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge 5/8 x 3/4 – inch meter	\$18.00	\$18.00	\$18.00
Gallons in Minimum	1,000	0	0
Commodity Charge:			
0 to 4,000 gallons (per 1,000 gallons)	\$ 1.95	\$ 1.95	N/A
4,001 to 16,000 gallons (per 1,000 gallons)	\$ 1.95	\$ 2.75	N/A
16,001 and over gallons (per 1,000 gallons)	\$ 1.95	\$ 4.65	N/A
0 to 3,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 1.55
3,001 to 9,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 2.75
9,001 and over gallons (per 1,000 gallons)	N/A	N/A	\$ 3.95

Typical residential bill:

Average use (9,020 gallons)	\$33.64	\$39.61	\$39.13
Median use (5,750 gallons)	\$27.26	\$30.61	\$30.76

Customers:

Number of customers in prior test year (12/31/91, CC&N) 21

Average Number of customers in the current test year (12/31/05): 84

Current test year customers by meter size:

5/8 X 3/4 – inch	84
3/4 – inch	0
1 – inch	0
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0

Seasonal customers: N/A

Customer notification for financing application filed: September 6, 2006

Customer notification for rate application filed: October 27, 2006

Number of customer complaints and/or opinions concerning rate/financing applications filed: 0.

Percentage of complaints to customer base: 0%

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff"), for Ashcreek Water Company ("Ashcreek" or "Company") show total operating revenue of \$33,971 and an operating income of \$1,927 or a 5.67 percent operating margin as shown on Schedule CSB-1. The Original Cost Rate Base ("OCRB") is \$10,373.

Ashcreek's proposed rates, as filed, would produce total operating revenue of \$45,232 and operating income of \$11,983, or a 26.49 percent operating margin. The Company claims an OCRB of \$30,291. The Company's proposed rates would increase the typical residential bill,¹ with a median usage of 5,750 gallons, from \$27.26 to \$30.61 for an increase of \$3.35, or 12.3 percent, as shown on Schedule CSB-5.

Staff recommends rates that would produce total operating revenue of \$44,208 and operating income of \$12,164, or a 27.52 percent operating margin. Staff recommends an OCRB of \$10,373. Staff's recommended rates would increase the typical residential bill with a median usage of 5,750 gallons, from \$27.26 to \$30.76 for an increase of \$3.50 or 12.8 percent, as shown on Schedule CSB-5.

Background

Ashcreek received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 55745, dated September 25, 1987. Prior to receiving its CC&N, the Company provided water to approximately 21 customers under the name Desert Rose Water System from at least 1975 without Arizona Corporation Commission ("Commission") authority. No rate base finding was made in Decision 55745 even though the Company had existing plant. Ashcreek is owned by several members of the Smith family. It is currently operated and managed by an interim manager.

On February 21, 2001, Staff filed a complaint against Ashcreek. The complaint alleged among other things that Ashcreek failed to comply with Decision No. 55745 by not timely installing meters for all customers; failing to properly read meters and maintain meter data; failing to file a required application for rate review; failing to keep books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"); and failing to file required proof of ownership of all wells. Decision No. 66180, dated August 13, 2003, authorized Staff to engage a qualified interim manager to operate and manage Ashcreek.

On June 25, 2005, Graham County Utilities ("Graham") filed a complaint against Ashcreek. The complaint alleged that Ashcreek extended unauthorized water lines to serve 18 customers in Graham's certificated area. Graham further alleged that the unauthorized water lines did not meet Graham's specifications or the minimum requirements of the Arizona

¹ 5/8 x 3/4 -inch meter.

Department of Environmental Quality. Decision No. 67951, June 21, 2005, approved a Borderline Agreement that resolved the complaint.

On September 6, 2006, Ashcreek filed a financing application and an application for a permanent rate increase. On October 6, 2006, the Company filed a request to consolidate the financing and rate applications. On October 10, 2006, the Company's request to consolidate the applications was approved by Procedural Order. On October 27, 2006, Staff filed a letter of sufficiency.

During the test year ended December 31, 2005, Ashcreek provided water service to an average of 84 metered customers. All customers are served by 5/8 x 3/4-inch meters.

Consumer Services

Staff reviewed the Commission's records and found three complaints (two water outages and one deposit refund issue) and nine inquiries for the period January 1, 2003 to January 11, 2007. All complaints and inquiries have been resolved and closed.

Engineering Analysis and Recommendations

Staff inspected the Company's plant facilities on November 20, 2006. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

Staff recommends that the Company submit an application to extend its CC&N for areas other than the White Fence Farms Subdivision within 120 days from the effective date of the order issued in this proceeding.

Staff recommends that the Company replace Well No. 2's wellhead meter during the construction of the proposed storage tank installation or within one year from the effective date of the order issued in this proceeding, whichever is sooner.

Arizona Department of Environment Quality ("ADEQ") issued a Notice of Violation for plant deficiencies. The Company has applied for Water Infrastructure Financing Authority ("WIFA") financing to address these plant deficiencies. The Company has submitted an ADEQ documentation stating that the Company is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file with Docket Control, as a compliance item in this case, a copy of the ADEQ Certificate for Approval to Construct for its storage tank project by December 31, 2007. In addition, Staff recommends that the Company submit the ADEQ Approval of Construction for the storage tank project by May 31, 2008.

Compliance

Ashcreek is current on its Utilities and Corporations annual reports. Ashcreek is also current on its sales and property tax payments.

The U.S. Environmental Protection Agency announced that the arsenic standard in drinking water will be reduced from 50 parts per billion ("ppb") to 10 ppb by 2006. The Company is currently not in compliance with the new arsenic maximum contaminant level. The Company plans to use the funds from its financing request to build plant to address this issue.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$19,918, from \$30,291 to \$10,373 as shown on Schedule CSB-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Ashcreek has not had a rate increase since initial rates were set during its 1987 CC&N proceeding. Consequently, it has never had a fair value rate base finding. Therefore, all reported plant, including the plant existing at the time of its CC&N proceeding, was subject to verification.

As previously discussed in the "Background" section of this report, one of the significant problems that led to the installation of an interim manager was Ashcreek's failure to keep adequate books and records. This problem has resulted in Ashcreek's inability to support \$93,756 of the \$98,005 in plant costs reported in its application. The remaining \$4,249 in reported plant (i.e., \$98,005 - \$93,756) was properly supported and placed in service during the period of time the interim manager has operated the Company.

The \$4,249 in invoices did not represent the cost of the existing plant that was used to serve customers during the test year. In order to make a reasonable estimate of the cost, Staff Engineering conducted a study and determined the total cost of plant in service was \$97,433. Staff treated \$91,924 of the \$97,433 as contributions since the Company had no supporting source documentation such as invoices, canceled checks, time sheets, or third party contracts to show who paid for the assets.

Staff's adjustments to plant in service resulted in a net increase of \$461 as shown on Schedule CSB-2, page 2. Staff made several adjustments to plant to reflect the plant balances from the Engineering Study. Staff also capitalized service line and meter installation costs that the Company had inappropriately expensed.

Pumping Equipment – Adjustment A increases this account by \$644, from \$8,027 to \$8,671 as shown on Schedule CSB-2, pages 2 and 3. Staff's adjusted amount reflects the \$8,027 plant balance reflected in Staff's Engineering Study.

Services – Adjustment B increases this account by \$11,604, from \$0 to \$11,604 as shown on Schedule CSB-2 pages 2 and 3. Staff's adjusted amount reflects the \$10,830 plant balance reflected in Staff's Engineering Study and capitalization of plant the Company inappropriately expensed. Staff notes that the Company reported \$1,211 in meter and service line advances additions on the "Advances in Aid of Construction" schedule on page 24 of the application but did not report any meter and service line plant additions on the "Plant Additions and Retirements by Year" schedule on page 13 of the application.

Per the Company's response to a Staff data request, Staff determined that the Company expensed \$1,033 in service line and meter installation costs. Staff noted that the Engineering study allocated 75 percent of a service line and meter installation cost to the service line plant account and 25 percent to the meters account. The same percentages were used to allocate the \$1,033² in expensed service line and meter installation costs. Staff recommends that the Company capitalize rather than expense costs incurred for service lines and meter installations by recording them in the proper plant accounts in accordance with the NARUC USOA.

Meters and Meter Installation – Adjustment C decreases this account by \$10,338, from \$14,205 to \$3,867 as shown on Schedule CSB-2, pages 2 and 3. Staff's adjusted amount reflects the \$3,609 plant balance reflected in Staff's Engineering Study and capitalization of plant the Company inappropriately expensed as discussed in Adjustment B above.

Tools Shop and Garage Equipment – Adjustment D decreases this account by \$1,450, from \$1,700 to \$250 as shown on Schedule CSB-2, pages 2 and 3. Staff's adjusted amount reflects the \$250 plant balance reflected in Staff's Engineering Study.

Accumulated Depreciation

Staff increased accumulated depreciation by \$628 from \$65,678 to \$66,306 as shown on Schedule CSB-2, page 4. The increase is based upon the adjustments Staff made to plant in service and Staff's use of the five percent composite depreciation rate authorized by the Commission during the prior CC&N proceeding for the intervening years.

² \$335.58 from Salaries and Wages + \$697.30 (\$464.80+232.50) from Repairs and Maintenance = \$1,033.

Contributions in Aid of Construction ("CIAC" or "Contributions")

Gross CIAC

Staff's adjustments to CIAC resulted in a net increase of \$91,924, from \$0 to \$91,924 as shown on Schedule CSB-2, page 1. Staff sent a data request asking for support of all reported plant. The Company was unable to provide support as discussed in the "Plant in service" and "Advances In Aid of Construction" sections of this Report. Therefore, Staff treated the unsupported plant costs as CIAC.

Amortization of CIAC

Staff's adjustments to Amortization of CIAC resulted in a net increase of \$67,686, from \$0 to \$67,686 as shown on Schedule CSB-2, page 1. Staff amortized the contributions using a five percent composite amortization rate. This rate was used in the Staff Report that was the basis of the rates developed during the CC&N proceeding.

Net CIAC

Staff's adjustments to CIAC and Amortization of CIAC resulted in net CIAC of \$24,238 as shown on Schedule CSB-2, page 1.

Advances in Aid of Construction ("AIAC" or "Advances")

Staff's adjustments to AIAC resulted in a net decrease of \$825, from \$2,036 to \$1,211 as shown on Schedule CSB-2, page 1. Staff adjusted the AIAC balance to reflect the \$1,211 received and reported by the interim manager on the "Advances In Aid of Construction" schedule on page 24 of the application. This amount is consistent with the Company's statement that it received monies for seven service line and meter installations and that one customer had not finished paying the full \$180 at year-end³. Staff treated the remaining \$825 (\$2,036 - \$1,211) in unsupported AIAC as CIAC.

The Company was authorized to collect \$180 for service line and meter installations from customers during its CC&N proceeding (Decision No. 55745, dated September 25, 1987). The Company had 84 customers at the end of 2005 and, therefore, could be expected to have approximately \$15,120 in AIAC (84 customers x \$180) assuming that no refunds had been made. Further, assuming that \$7,549 in unrefunded advances received between the years 1985 through 1995 converted to CIAC, and were removed from the AIAC balance, the resulting net AIAC balance would be approximately \$7,571. However, the Company only reported an AIAC balance of \$2,036.

³ Data request response number 8 received via electronic mail dated Nov. 1, 2006.

The interim manager acknowledged that customer advances had been collected prior to 2005 but indicated that the Company had no records documenting customer name, date paid, and amount paid. Without this information, the Company was and will continue to be unable to refund the AIAC. Consequently, Staff treated monies for meter and service line installations that were received prior to the interim manager taking over as CIAC.

Staff recommends that the interim manager determine whether or not customers that are not currently reported as having paid advances, have written documentation showing name, date, and amount paid for their meter and service line installations. If customers have the documentation, then the Company should adjust its records by removing the amount paid from the CIAC account and adding it to the AIAC account. The Company should refund the customers in accordance with Commission rules.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$3,663, from \$0 to \$3,663 as shown on Schedule CSB-2, pages 1 and 5 primarily as a result of increasing cash working capital and inventory.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one twenty-fourth of purchased power and purchased water expenses.

Staff's adjustments to inventory resulted in a net increase of \$276, from \$0 to \$276 as shown on Schedule CSB-2, page 1. This adjustment reflects items that were purchased and included in the Repairs and Maintenance account but not used during the test year. The interim manager stated that the items are maintained for emergency repair of broken water lines.

Operating Income Statement

Operating Revenue

Staff decreased test year operating revenue by \$784, from \$34,755 to \$33,971 as shown on Schedule CSB-3, page 1, adjustment A. Staff removed \$784, for revenue received as a result of the Company billing an outside party for repairing two mainline breaks caused by digging without blue staking. This type of revenue is abnormal and unlikely to be received every year.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$1,205 as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages – Adjustment B decreases this account by \$2,560, from \$17,161⁴ to \$14,601 as shown on Schedule CSB-3, pages 1 and 2. Staff reflected the Company's 2005 general ledger account balance for salaries and wages and removed \$1,565 in expenses incurred for payroll taxes. Additionally, Staff removed \$660 for labor related to the Company billing an outside party for repairing two mainline breaks caused by digging without blue staking and \$335.58 for labor for service lines and meters the Company inappropriately expensed.

Repair and Maintenance Expense – Adjustment C decreases this account by \$1,307, from \$1,925 to \$618 as shown on Schedule CSB-3, pages 1 and 2. Staff removed costs for items that were not in service or inappropriately expensed. The detail to Staff's adjustment is shown on Schedule CSB-3, page 2.

Outside Services – Adjustment D increases this account by \$6,000, from \$395 to \$6,395 as shown on Schedule CSB-3, pages 1 and 2 to provide monies to pay for services that are currently being provided by the interim manager at no cost. Decision No. 66180, dated August 13, 2003, (page 13, at line 22 ½) states the following concerning the interim manager's compensation:

The schedule of costs for any such Manager shall be set forth by agreement between the Utilities Division Director and such Manager, *which costs may be reviewed and revised after (12) months of satisfactory service* by such Manager. (emphasis added).

The Company's interim manager requested⁵ an annual amount of \$6,000 to provide the following outside services:

1. Maintaining an office open from 8:00 to 5:00 Monday through Friday for customers to make payments.
2. Maintaining a phone service for customer inquiries, emergency callouts, etc. including alerting repair personnel.
3. Providing the computer, software, and printer to provide general and customer accounting services.
4. Entering meter readings into the billing program.
5. Printing the bills, folding, placing in envelopes, stamping and mailing.
6. Picking up mail from P.O. Box including payments.
7. Receiving payments from customers – both cash and checks paid in-person (approximately 80 percent of bills are paid in-person).
8. Providing research for customers who have lost their bill or forgot to bring it.
9. Providing translation services for customers who do not speak English.
10. Entering payments into cash receipts journal, balancing, and preparing deposits.
11. Taking deposits to bank.

⁴ \$12,000 (Interim Manager) + \$2,089 (Meter Reader) + \$1,506 (Field Labor) + \$1,565 (Payroll Taxes) = \$17,160

⁵ The Company erroneously made its request to increase the interim manager's compensation in its financing application.

12. Receiving and reconciling bank statements.
13. Receiving, verifying, and paying Company bills.
14. Receiving, completing, and paying government reports: Sales Tax, Workman's Comp, Unemployment, Federal Depositories, etc.
15. Receiving meter installation fees, customer deposits, turn on/off messages, including alerting service personnel.
16. Additional activities as required.

These services are presently being provided by personnel at Interstate Electronics, Inc. (located at 3776 Main St. in Thatcher, AZ) at no cost to Ashcreek. The interim manager, Bevan Barney, is the primary owner of the corporation and the employees work at his direction to assist in the operation and management of Ashcreek. Mr. Barney indicated in response to a data request that the amount charged to Ashcreek is at cost and, as such, does not include a profit.

Water Testing – Adjustment E decreases this account by \$506, from \$1,900 to \$1,394 as shown on Schedule CSB-3, pages 1 and 2. This adjustment reflects the normalized annual water testing costs determined by Staff Engineering and reported in Table A of the attached Engineering Report.

General Liability Insurance – Adjustment F increases this account by \$781, from \$0 to \$781 to reflect the Company's latest workman's compensation liability insurance as shown on Schedule CSB-3, pages 1 and 2.

Miscellaneous Expense – Adjustment G decreases this account by \$967, from \$1,521 to \$554 as shown on Schedule CSB-3, pages 1 and 2 to remove costs incurred for penalties, food, and a computer that is no longer in service.

Depreciation Expense – Adjustment H decreases this account by \$4,254, from \$4,890 to \$636 as shown on Schedule CSB-3, pages 1, 3, and 4. This adjustment reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Property Tax Expense – Staff's Adjustment I increased this account by \$44, from \$1,206 to \$1,250 to reflect the Company's latest property tax bill.

Taxes Other Than Income Expense – The following is the account description for the NARUC USOA Account No. 408, Taxes Other Than Income:

These accounts shall include the amount of ad valorem, gross revenue or gross receipts taxes, regulatory agency general assessments for purposes of public utility regulation, state unemployment insurance, franchise taxes, federal excise taxes, social security taxes, and all other taxes assessed by federal, state, county, municipal, or other local governmental authorities, except income taxes. (emphasis added).

Staff's Adjustment J increased this account by \$1,565, from \$0 to \$1,565 to reflect payroll taxes that the Company inappropriately included in Salaries and Wages expense.

Interest Expense on L.T. Debt – Adjustment K increases this account by \$7,851, from \$0 to \$7,851 as shown on Schedule CSB-3, page 1. This adjustment reflects the interest expense on the \$113,380 Company proposed and Staff recommended long-term debt.

Revenue Requirement

The rates for the Ashcreek water system have not been increased in approximately twenty years. The Company has requested and Staff has recommended approval of an \$113,380 construction loan to improve service and reliability of the water system. Further, the Company plans to install a new water tank and transmission line to blend water to in order to address its arsenic problem. Additionally, the Company needs revenue totaling \$6,000 per year to provide funding for general accounting and customer services that the Company currently receives at no cost.

Staff recommends total operating revenue of \$44,208, an increase of \$9,453, or 27.2 percent above the Company's test year revenue of \$34,755. Staff's recommended revenue provides operating income of \$12,164 for an operating margin of 27.52 percent as shown on Schedule CSB-1. Further, Staff's recommended "Other Water Revenues" reflects a \$75 increase in revenue due to higher charges for Miscellaneous Services as shown on Schedule CSB-8, Lines 26 and 37.

Rate Design

Schedule CSB-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's present rate structure has not changed in approximately 20 years. The monthly customer charges vary by meter size as follows: 5/8-¾ inch \$18.00; 1-inch, \$27.00; 1½-inch, \$45.00; 2-inch, \$90.00; and 3-inch, \$144. One thousand gallons are included in the minimum. The present commodity rate is \$1.95 per 1,000 gallons.

Staff's monthly customer charge is consistent with traditional NARUC recognized rate making principles. The monthly customer charge should reflect customer costs that do not vary with usage such as meter reading, billing, and customer accounting. Staff analyzed the customer costs and determined that they were lower than the present monthly customer charge. Staff did not reduce the present monthly customer charge in order to provide revenue stability. Revenue stability is an important concern because Ashcreek must pay the debt service on the \$113,380 Staff recommended loan regardless of the amount of cash it receives in any given month and does not have quick access to capital in case of temporary cash shortages. Further, Staff recommended monthly customer charges for meter sizes that the Company currently does not have.

Staff's inverted tier rate structure encourages efficient water usage by assigning higher costs to customers within the same customer class who use more than the average.⁶ Accordingly, Staff's rate design assigns a lower cost to customers within the same customer class who use less than the average.

Staff recommended increases to certain miscellaneous service charges as shown on Schedule CSB-4. The Staff recommended amount represents the median amount charged for similarly sized companies that were used in a Staff prepared miscellaneous service charge study.

The Company's proposed service line and meter installation charges were calculated based on out-dated amounts set 20 years ago. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C of the attached Engineering Report. Staff's recommendation will help ensure that the Company will have enough cash to pay for the actual installation of service for any meter size.

Offsite Hook-up Fee

The Company requested a \$2,500 offsite hook-up fee. Staff recommends a \$1,000 hook-up fee and adoption of the Offsite Hook-up Fee Tariff discussed in Section I, Item No. 4 and shown in Attachment B – HUF of the attached Engineering report.

Staff further recommends that the Company submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule CSB-4. Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff recommends a \$1,000 hook-up fee and adoption of the Offsite Hook-up Fee Tariff discussed in Section I, Item No. 4 and shown in Attachment B – HUF of the attached Engineering report.

⁶ The range of average water usage for an inverted three-tier structure is the range of the second tier. The range of average water usage for an inverted two-tier structure is the range of the first tier.

Staff further recommends that the Company submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

Staff recommends that the Company capitalize rather than expense costs incurred for service lines and meter installations by recording them in the proper plant accounts in accordance with the NARUC USOA.

Staff recommends that the interim manager determine whether or not customers that are not currently reported as having paid advances, have written documentation showing name, date, and amount paid for their meter and service line installations. If customers have the documentation, then the Company should adjust its records by removing the amount paid from the CIAC account and adding it to the AIAC account. The Company should refund the customers in accordance with Commission rules.

Staff recommends that the Company submit an application to extend its CC&N for areas other than the White Fence Farms Subdivision within 120 days from the effective date of the order issued in this proceeding.

Staff recommends that the Company replace Well No. 2's wellhead meter during the construction of the proposed storage tank installation or within one year from the effective date of the order issued in this proceeding, whichever is sooner.

ADEQ issued a Notice of Violation for plant deficiencies. The Company has applied for Water Infrastructure Financing Authority financing to address these plant deficiencies. The Company has submitted an ADEQ documentation stating that the Company is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file with Docket Control, as a Compliance item in this case, a copy of the ADEQ Certificate for Approval to Construct for its storage tank project by December 31, 2007. In addition, Staff recommends that the Company submit the ADEQ Approval of Construction for the storage tank project by May 31, 2008.

Staff recommends that the Company use Staff's depreciation rates delineated in Table B of the attached Engineering Report.

FINANCING APPLICATION

Introduction

On September 6, 2006, Ashcreek filed an application with the Commission requesting authorization to borrow \$113,380 from WIFA.

Public Notice

Ashcreek included in its application (filed on September 6, 2006) a copy of the public notice that it stated was mailed to customers.

Purpose and Terms of the Proposed Financing

The purpose of the long-term debt is to provide funds to improve service and reliability of the water system and to install a new water tank and transmission line for blending water in order to address its arsenic problem. The proposed financing is a 20-year amortizing loan at a 7.00 percent interest rate as shown on Schedule CSB-7.

Engineering Analysis

Staff examined the construction plans and estimated costs for Ashcreek's construction projects and found them to be reasonable and appropriate. A complete discussion of the construction projects and costs are discussed in the attached Engineering Memorandum.

Financial Analysis

Staff's analysis is based on Ashcreek's financial statements dated December 31, 2005. The financial analysis shown on Schedule CSB-6 presents selected financial information from the financial statements, the pro forma effect of the proposed \$113,380. Schedule CSB-1 also shows the capital structure and debt service coverage ("DSC") and times interest earned ("TIER") ratios.

Capital Structure

At December 31, 2005, Ashcreek's capital structure consisted of 100 percent equity. Ashcreek's drawing the entire proposed loan of \$113,380 would result in a pro forma capital structure comprised of 1.65 percent short-term debt, 67.57 percent long-term debt and 30.79 percent equity as shown on Schedule CSB-6.

Interest and Debt Service Coverage

Staff also examined the effects of the proposed financing on the Company's TIER and DSC.

DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

Ashcreek's TIER and DSC resulting from its 2005 Staff adjusted financial statements are not meaningful as the Company had no debt. Including Staff's recommended revenue requirement and fully drawing the proposed \$113,380 loan results in a pro forma TIER and DSC of 1.55 and 1.21, respectively. The pro forma TIER and DSC show that Ashcreek would have adequate cash flow to meet all obligations including the proposed debt.

Conclusions and Recommendations

Staff concludes that the project the Company proposes to construct and the \$113,380 in long-term debt is reasonable and appropriate.

Staff concludes that the proposed financing is within Ashcreek's powers as a corporation, is compatible with the public interest and would not impair its ability to provide public service.

Therefore, Staff recommends approval of the Company's application for authority to issue debt to WIFA not to exceed \$113,380.

Staff further recommends authorizing Ashcreek to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that one copy of executed loan documents be filed with Docket Control, as a Compliance item, within 60 days of the execution of any transactions.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$33,754	\$33,754	\$44,231	\$43,991
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,001	217	1,001	217
Total Operating Revenue	\$34,755	\$33,971	\$45,232	\$44,208
Operating Expenses:				
Operation and Maintenance	\$27,153	\$28,593	\$27,153	\$28,593
Depreciation	4,890	636	4,890	636
Property & Other Taxes	1,206	2,815	1,206	2,815
Income Tax	0	0	0	0
Total Operating Expense	\$33,249	\$32,044	\$33,249	\$32,044
Operating Income/(Loss)	\$1,506	\$1,927	\$11,983	\$12,164
Rate Base O.C.L.D.	\$30,291	\$10,373	\$30,291	\$10,373
Rate of Return - O.C.L.D.	4.97%	18.58%	N/M	N/M
Times Interest Earned Ratio (Pre-Tax)	N/A	N/A	1.53	1.55
Debt Service Coverage Ratio (Pre-Tax)	N/A	N/A	1.60	1.21
Operating Margin	4.33%	5.67%	26.49%	27.52%

NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/A: Not Applicable
N/M: Not Meaningful

RATE BASE

	----- Original Cost -----				
	Company		Adjustment Ref		Staff
Plant in Service	\$ 98,005	\$	461 A	\$	98,466
Less:					
Accum. Depreciation	65,678		628 B		66,306
Net Plant	\$ 32,327	\$	(167)	\$	32,160
Less:					
Line Extension Advances	\$ -	\$	-	\$	-
Service Line and Meter Advances	2,036		(825) C		1,211
Total Advances	\$ 2,036	\$	(825)	\$	1,211
Contributions Gross	\$ -	\$	91,924 D	\$	91,924
Less:					
Amortization of CIAC	-		67,686 E		67,686
Net CIAC	\$ -	\$	24,238	\$	24,238
Total Deductions	\$ 2,036	\$	23,413	\$	25,449
Plus:					
1/24 Purchased Power & Water	\$ -	\$	84 F	\$	84
1/8 Operation & Maint.	-		3,323 G		3,323
Inventory	-		256 H		256
Prepayments	-		-		-
Total Additions	\$ -	\$	3,663	\$	3,663
Rate Base	\$ 30,291	\$	(19,918)	\$	10,373

Explanation of Adjustments

- A - See Schedule 2, Page 2
- B - See Schedule 2, Page 4
- C - See Schedule 2, Page 5
- D - See Schedule 2, Page 5
- E - See Schedule 2, Page 5
- F - See Schedule 2, Page 5
- G - See Schedule 2, Page 5
- H - See Schedule 2, Page 5

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$650	\$0	\$650
302 Franchises	0	0	0
303 Land & Land Rights	1,000	0	1,000
304 Structures & Improvements	443	0	443
307 Wells & Springs	6,520	0	6,520
311 Pumping Equipment	8,027	644 a	8,671
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	1,443	0	1,443
331 Transmission & Distribution Mains	64,017	0	64,017
333 Services	0	11,604 b	11,604
334 Meters & Meter Installations	14,205	(10,338) c	3,867
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	1,700	(1,450) d	250
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$98,005	\$461 A	\$98,466

For Explanations of Adjustments, see Schedule 2, Page 3.

Ashcreek Water Company

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Test Year Ended: December 31, 2005

Schedule CSB-2

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STAFF PLANT ADJUSTMENTS

a	-	PUMPING EQUIPMENT - Per Company	\$8,027	
		Per Staff	8,671	\$644

To reflect the December 31, 2005 ending plant balance for pumping equipment stated in the Engineering Study.

b	-	SERVICES - Per Company	\$0	
		Per Staff	11,604	\$11,604

To reflect the December 31, 2005 ending plant balance for services stated in the Engineering Study and to add plant that the Company inappropriately expensed.

\$	10,830	Account Balance per Engineering Study
\$	252	Labor from Salaries & Wage (\$335.48 x 0.75)
\$	523	Mat'ls & Backhoe from Repair & Maint Exp Acct. [(\$232.50+\$464.80)x.75]
	<u>11,605</u>	Staff Account Balance

c	-	METERS & METER INSTALLATIONS - Per Company	\$14,205	
		Per Staff	3,867	(\$10,338)

To reflect the December 31, 2005 ending plant balance for meters & meter installations stated in the Engineering Study and to add plant that the Company inappropriately expensed.

\$	3,609	Account Balance per Engineering Study
\$	84	Labor from Salaries & Wage (\$335.48 x 0.25)
\$	174	Mat'ls & Backhoe from Repair & Maint Exp Acct. [(\$232.50+\$464.80)x.25]
	<u>3,867</u>	Staff Account Balance

d	-	TOOLS, SHOP, & GARAGE EQUIP - Per Company	\$1,700	
		Per Staff	250	(\$1,450)

To reflect the December 31, 2005 ending plant balance for tools, shop, & garage equipment stated in the Engineering Study.

Ashcreek Water Company
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Schedule CSB-2
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ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 65,678
Accumulated Depreciation - Per Staff	66,306
Total Adjustment	\$ 628 B

To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant.

STAFF RATE BASE ADJUSTMENTS

C	-	SERVICE LINE & METER ADVANCES - Per Company	\$2,036	
		Per Staff	1,211	(\$825)

To reflect Staff's calculation of service line and meter advances based upon Staff's analysis of Company's historical customer count.

D	-	GROSS CONTRIBUTIONS ("CIAC") - Per Company	\$ -	
		Per Staff	91,924	\$91,924

To reflect Staff's calculation of gross contribution in aid of construction based upon Staff's analysis of unsupported plant costs. All unsupported plant was treated as CIAC.

E	-	AMORTIZATION OF CIAC - Per Company	\$ -	
		Per Staff	67,686	\$67,686

To reflect Staff's calculation of accumulated amortization of CIAC based upon Staff's adjustments to CIAC.

F	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company	\$ -	
		Per Staff	84	\$84

To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.

G	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company	\$ -	
		Per Staff	3,323	\$3,323

To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).

H	-	INVENTORY - Per Company	\$ -	
		Per Staff	256	\$256

To reflect purchases of plant used for emergency repair of broken water lines that the Company inappropriately included in repairs & maint expense.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 33,754	\$ -	\$ 33,754
460 Unmetered Water Revenue	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 1,001	\$ (784) A	\$ 217
Total Operating Revenue	\$ 34,755	\$ (784)	\$ 33,971
Operating Expenses:			
601 Salaries and Wages	\$ 17,161	\$ (2,560) B	\$ 14,601
610 Purchased Water	\$ -	\$ -	\$ -
615 Purchased Power	\$ 2,010	\$ -	\$ 2,010
618 Chemicals	\$ -	\$ -	\$ -
620 Repairs and Maintenance	\$ 1,925	\$ (1,307) C	\$ 618
621 Office Supplies & Expense	\$ 467	\$ -	\$ 467
630 Outside Services	\$ 395	\$ 6,000 D	\$ 6,395
635 Water Testing	\$ 1,900	\$ (506) E	\$ 1,394
641 Rents	\$ 36	\$ -	\$ 36
650 Transportation Expenses	\$ 1,738	\$ -	\$ 1,738
657 Insurance - General Liability	\$ -	\$ 781 F	\$ 781
659 Insurance - Health and Life	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ -	\$ -	\$ -
675 Miscellaneous Expense	\$ 1,521	\$ (967) G	\$ 554
403 Depreciation Expense	\$ 4,890	\$ (4,254) H	\$ 636
408 Taxes Other Than Income	\$ -	\$ 1,565 I	\$ 1,565
408.11 Property Taxes	\$ 1,206	\$ 44 J	\$ 1,250
409 Income Tax	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 33,249	\$ (1,205)	\$ 32,044
OPERATING INCOME/(LOSS)	\$ 1,506	\$ 421	\$ 1,927
Other Income/(Expense):			
419 Interest and Dividend Income	\$ -	\$ -	\$ -
421 Non-Utility Income	\$ -	\$ -	\$ -
427 Interest Expense	\$ -	\$ 7,851 K	\$ 7,851
426 Miscellaneous Non-Utility Expense	\$ -	\$ -	\$ -
Total Other Income/(Expense)	\$ -	\$ (7,851)	\$ (7,851)
NET INCOME/(LOSS)	\$ 1,506	\$ (7,430)	\$ (5,924)

STAFF ADJUSTMENTS

A	-	OTHER WATER REVENUES - Per Company	\$1,001	
		Per Staff	217	(\$784)

To remove monies the Company received for repairing a water line break caused by an individual digging without bluestaking.

B	-	SALARIES AND WAGES - Per Company	\$ 17,161	
		Per Staff	14,601	(\$2,560)

\$ 17,161 Salaries and Wages per Company
\$ (1,565.00) Payroll taxes
\$ (660.00) Labor for repairing water line break (related to Adjustment A above)
\$ (335.58) Labor for meter and service line installations
\$ 14,600.42

C	-	REPAIRS AND MAINTENACE EXPENSE - Per Company	\$ 1,925	
		Per Staff	618	(\$1,307)

\$ 1,925.00 Repairs & Maintenance per Company
\$ (131.97) Parts for storage tank that is not in service
\$ (77.52) Parts for storage tank that is not in service
\$ (464.80) Backhoe charges for service line and meter installations
\$ (232.50) Parts for service line and meter installations
\$ (151.54) Inventory for emergency repair of water mains. Reclass to Inventory in rate base
\$ (124.40) Inventory for emergency repair of water mains. Reclass to Inventory in rate base
\$ (124.40) Abnormal exp - Parts for damage caused by person digging without bluestaking
\$ 617.87

D	-	OUTSIDE SERVICES - Per Company	\$395	
		Per Staff	6,395	\$6,000

To reflect the Company proposed and Staff recommended Outside Services cost

E	-	WATER TESTING - Per Company	\$ 1,900	
		Per Staff	1,394	(\$506)

To reflect Staff's annual water testing expense

F	-	GENERAL LIABILITY INSURANCE - Per Company	\$ -	
		Per Staff	781	\$781

To reflect the Company's 2006 workman's compensation insurance

G	-	MISCELLANEOUS EXPENSE - Per Company	\$ 1,521	
		Per Staff	554	(\$967)

\$ 811.40 Payments for computer that is not in service
\$ 140.00 Late filing penalty unemployment tax report (\$35 x 4)
\$ 15.72 Food
\$ 967.12

STAFF ADJUSTMENTS (Cont.)

H - DEPRECIATION - Per Company \$4,890
Per Staff 636 (\$4,254)

Acct No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ 650	\$ 650	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 1,000	\$ 1,000	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 443	\$ -	\$ 443	3.33%	\$ 15
307	Wells & Springs	\$ 6,520	\$ -	\$ 6,520	3.33%	\$ 217
311	Pumping Equipment	\$ 8,671	\$ -	\$ 8,671	12.50%	\$ 1,084
320	Water Treatment Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
330	Distribution Reservoirs & Standp	\$ 1,443	\$ -	\$ 1,443	2.22%	\$ 32
331	Transmission & Distribution Mai	\$ 64,017	\$ -	\$ 64,017	2.00%	\$ 1,280
333	Services	\$ 11,604	\$ -	\$ 11,604	3.33%	\$ 386
334	Meters & Meter Installations	\$ 3,867	\$ -	\$ 3,867	8.33%	\$ 322
335	Hydrants	\$ 0	\$ -	\$ 0	0.00%	\$ -
336	Backflow Prevention Devices	\$ 0	\$ -	\$ 0	0.00%	\$ -
339	Other Plant and Misc. Equipmer	\$ 0	\$ -	\$ 0	0.00%	\$ -
340	Office Furniture & Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
341	Transportation Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
343	Tools Shop & Garage Equipmen	\$ 250	\$ -	\$ 250	5.00%	\$ 13
	Total Plant	\$ 98,466	\$ 1,650	\$ 96,816		\$ 3,349

Depreciation Expense Before Amortization of CIAC: \$ 3,349
Less Amortization of CIAC*: \$ 2,713
Test Year Depreciation Expense - Staff: \$ 636
Depreciation Expense - Company: \$ 4,890
Staff's Total Adjustment: \$ (4,254)

*** Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross) \$ 91,924
Less: Non Amortizable Contribution(s) 1,650
Less: Fully Amortized Contribution(s) 0
Amortizable Contribution(s) \$ 90,274
Times: Staff Proposed Amortization Rate (See Sch. 3, p. 4) 3.01%
Amortization of CIAC \$ 2,713

Adjustment "H" is continued on next page

STAFF ADJUSTMENTS (Cont.)

Adjustment "H" Continued

Calculation of Staff Proposed CIAC Amortization Rate			
Description	Staff Proposed Depr / Amort Rates	2005 Amortizable CIAC	2005 Amortization Expense
304 Structures & Improv	3.33%	\$ 443.00	\$ 14.75
307 Wells & Springs	3.33%	\$ 6,520.00	\$ 217.12
311 Electric Pumping Equip	12.50%	\$ 4,422.00	\$ 552.75
320 Water Treatment Equip	0.00%	\$ -	\$ -
330 Dist. Resrvr & Stndpipe	2.22%	\$ 1,443.00	\$ 32.03
331 Trans. & Distr. Mains	2.00%	\$ 64,017.00	\$ 1,280.34
333 Services	3.33%	\$ 9,884.75	\$ 329.16
334 Meters	8.33%	\$ 3,294.25	\$ 274.41
335 Hydrants	0.00%	\$ 0.00	\$ -
339 Plant Structures & Imprv	0.00%	\$ 0.00	\$ -
340 Office Furniture & Fixt	0.00%	\$ 0.00	\$ -
341 Transportation Equip	0.00%	\$ -	\$ -
343 Tools & Work Equip	5.00%	\$ 250.00	\$ 12.50
	0.00%	\$ 0.00	\$ -
		\$ 90,274.01	\$ 2,713.07

Staff proposed CIAC Amortization Rate (Amortization Exp / Amortizable CIAC) 0.030053675

I	-	TAXES OTHER THAN INCOME - Per Company	\$ -	
		Per Staff	1,565	\$1,565
		To reflect the Company's payroll taxes.		
J	-	PROPERTY TAXES - Per Company	\$1,206	
		Per Staff	1,250	\$44
		To reflect the Company's latest property tax bill.		
K	-	INTEREST EXPENSE ON LONG-TERM DEBT - Per Company	\$ -	
		Per Staff	7,851	\$7,851
		To reflect interest expense on Staff's recommended L.T. Debt		

RATE DESIGN

Monthly Customer Charge:

	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$18.00	\$18.00	18.00
3/4" Meter	27.00	27.00	27.00
1" Meter	45.00	45.00	45.00
1 1/2" Meter	90.00	90.00	90.00
2" Meter	144.00	144.00	128.00
3" Meter	0.00	0.00	270.00
4" Meter	0.00	0.00	450.00
6" Meter	0.00	0.00	900.00

Gallons Included In Monthly Customer Charge:

For all meter sizes	1,000	0	0
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Commodity Rates:

Per 1,000 Gallons for 0 to 4,000 Gallons	\$1.95	\$1.95	N/A
Per 1,000 Gallons for 4,001 to 16,000	\$1.95	\$2.75	N/A
Per 1,000 Gallons for Gallons in Excess of 16,000	\$1.95	\$4.65	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	N/A	N/A	\$1.55
Per 1,000 Gallons for 3,001 to 9,000 Gallons	N/A	N/A	\$2.75
Per 1,000 Gallons for Gallons in Excess of 9,000	N/A	N/A	\$3.95

Bulk Water Rate per 1,000 Gallons

\$3.50	\$4.65	\$3.95
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Offsite Hook-up Fee (per hook-up)

N/A	\$2,500	\$1,000
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Service Line and Meter Installation Charges

	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$180.00	\$580.00	\$440.00
3/4" Meter	220.00	620.00	520.00
1" Meter	250.00	700.00	610.00
1 1/2" Meter	375.00	875.00	855.00
2" Meter	500.00	1,000.00	1,515.00
3" Meter	N/A	N/A	2,195.00
4" Meter	N/A	N/A	3,360.00
6" Meter	N/A	N/A	6,115.00

Service Charges

Establishment	\$15.00	\$40.00	\$20.00
Establishment (After Hours)	20.00	80.00	30.00
Reconnection (Delinquent)	15.00	40.00	35.00
Reconnection (Delinquent - After Hours)	15.00	80.00	50.00
Meter Test (If Correct)	30.00	50.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	10.00	25.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	25.00	20.00
Late Fee	N/A	15.00	1.50%

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

N/A: Not applicable

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 83

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,020	\$33.64	\$39.61	\$5.97	17.7%
Median Usage	5,750	\$27.26	\$30.61	\$3.35	12.3%
<u>Staff Proposed</u>					
Average Usage	9,020	\$33.64	\$39.13	\$5.49	16.3%
Median Usage	5,750	\$27.26	\$30.76	\$3.50	12.8%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.00	\$18.00	0.0%	\$19.25	6.9%
1,000	18.00	19.95	10.8%	20.75	15.3%
2,000	19.95	21.90	9.8%	22.25	11.5%
3,000	21.90	23.85	8.9%	23.75	8.4%
4,000	23.85	25.80	8.2%	26.30	10.3%
5,000	25.80	28.55	10.7%	28.85	11.8%
6,000	27.75	31.30	12.8%	31.40	13.2%
7,000	29.70	34.05	14.6%	33.95	14.3%
8,000	31.65	36.80	16.3%	36.50	15.3%
9,000	33.60	39.55	17.7%	39.05	16.2%
10,000	35.55	42.30	19.0%	42.85	20.5%
15,000	45.30	56.05	23.7%	61.85	36.5%
20,000	55.05	77.40	40.6%	80.85	46.9%
25,000	64.80	100.65	55.3%	99.85	54.1%
50,000	113.55	216.90	91.0%	194.85	71.6%
75,000	162.30	333.15	105.3%	289.85	78.6%
100,000	211.05	449.40	112.9%	384.85	82.4%
125,000	259.80	565.65	117.7%	479.85	84.7%
150,000	308.55	681.90	121.0%	574.85	86.3%
175,000	357.30	798.15	123.4%	669.85	87.5%
200,000	406.05	914.40	125.2%	764.85	88.4%

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A]	[B]
	12/31/2005 Test Year Operating Results <u>Without Loan</u>	12/31/2005 <i>With Staff Recommended Operating Income and Company Proposed /Staff Recommended Loan Amount \$113,380</i>
1 Operating Income	\$ 1,927	\$ 12,164
2 Depreciation & Amortization Expense	\$ 636	\$ 636
3 Income Tax Expense	\$ -	\$ -
4 Interest Expense	\$ -	\$ 7,851
5 Principal Repayment	\$ -	\$ 2,697

TIER & DSC Calculation

TIER		
6 [1+3] ÷ [4]	Not Meaningful	1.55
DSC		
7 [1+2+3] ÷ [4+5]	Not Meaningful	1.21

Capital Structure

8 Short-term Debt	\$ -	0.00%	\$ 2,697 (a)	1.65%
9 Long-term Debt	\$ -	0.00%	\$ 110,683 (b)	67.57%
10 Equity	\$ 50,429	100.00%	\$ 50,429	30.79%
11 Total Capital	\$ 50,429	100.00%	\$ 163,809	100.00%

(a) The \$2,697 amount reflects the projected current maturities on the debt.

(b) The \$110,683 amount reflects the \$113,380 ending balance less projected current maturities on the debt (i.e. \$113,380 - \$2,697).

WIFA Loan Amount Requested	\$113,380		
Down Payment:	\$0		
Amount Financed:	\$113,380		
Number of years:	20	Compounding Periods:	12
Interest rate Before Subsidy	10.00%		
WIFA Subsidy Rate:	0.70		
WIFA Interest rate (r) (Line 5 x Line 6):	7.00%	APR:	7.23%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$879.03	\$113,380.00	\$661.38	\$217.65	\$113,162.35			
2	879.03	113,162.35	660.11	218.92	112,943.43			
3	879.03	112,943.43	658.84	220.20	112,723.23			
4	879.03	112,723.23	657.55	221.48	112,501.75			
5	879.03	112,501.75	656.26	222.77	112,278.98			
6	879.03	112,278.98	654.96	224.07	112,054.90			
7	879.03	112,054.90	653.65	225.38	111,829.52			
8	879.03	111,829.52	652.34	226.70	111,602.83			
9	879.03	111,602.83	651.02	228.02	111,374.81			
10	879.03	111,374.81	649.69	229.35	111,145.46			
11	879.03	111,145.46	648.35	230.69	110,914.78			
12	879.03	110,914.78	647.00	232.03	110,682.75	7,851.15	2,697.25	10,548.41

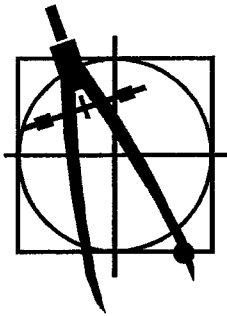
CASH FLOW ANALYSIS

As of 12/31/2005

Line No.		
1	Operating Revenue:	\$ 33,971
2	Operating Expenses:	
3	All Other Operating Expenses	\$ 30,158
4	Depreciation	636
5	Property Taxes	1,250
6	Other taxes	0
7	Total Operating Expense	\$ 32,044
8	Operating Income (Line 1 - Line 7)	\$1,927
9	Add back Depreciation Expense	\$636
10	Total Cash Available	\$2,563
11	Less Existing Debt Service on Loan Balance:	
12	Annual Principal and Interest Payment (\$0 x 12)	\$0
13	Annual Debt Service Reserve Payment (\$0 x 12)	\$0
14		\$0
15	Subtotal	\$0
16	Annual Repair and Maintenance Payment (See Note 1 Below)	\$0
17	Total WIFA Debt Service & Repair Cash Requirement for Existing Loan	\$0
18	Less Debt Service on Staff Recommended \$113,380 Loan:	
19	Annual Principal and Interest Payment	\$10,548
20	Annual Debt Service Reserve Payment (\$10,159 / 5)	\$2,110
21		\$0
22	Subtotal	\$12,658
23	Annual Repair and Maintenance Payment (See Note 1 Below)	\$0
24	Total WIFA Debt Service & Repair Cash Requirement for Staff Recommended Loan	\$12,658
25	Cash Needed to Break Even (Line 10 - Line 17 - Line 24)	(\$10,095)
26	Decrease due to Misc Service Charge Recommended Increases (See Note 2 Below)	\$75
27	Total Cash Needed	(\$10,020)
28	Total Cash Needed to Break Even	\$10,020

29 Note 1:
30 The Repair and Maintenance payment begins on the 61st month following the month
31 in which the first advance occurs.

	Staff			No. of Times Charged in Test Year	Revenue Increase
	Current	Recommended	Increase		
32 Note 2:					
33					
34					
35 Establishment	\$15.00	\$20.00	\$5.00	7	\$35.00
36 Reconnection (Delinqu)	\$15.00	\$35.00	\$20.00	2	\$40.00
37					\$75.00



Engineering Report for Ashcreek Water Company

Docket No. W-02494A-06-0562 (Rates)

By: Marlin Scott, Jr.
Utilities Engineer

January 29, 2007

CONCLUSIONS

- A. Ashcreek Water Company ("Company") is currently providing service to approximately 84 customers, of which approximately 55 customers are located outside its Certificate of Convenience and Necessity ("CC&N"). One area known as the White Fence Farms Subdivision is located within the CC&N of Graham County Utilities, Inc. A Borderline Agreement approved in Decision No. 67951, dated June 21, 2005, approved the Company's provision of service to the White Fence Farms Subdivision.
- B. The Company system's current two well source, without any storage tank, is inadequate to serve the present customer base. See RECOMMENDATION #3 below.
- C. The Company reported its arsenic concentration for its Well #2 at 19 parts per billion ("ppb") and Well #6 at 3.2 ppb. Based on these arsenic concentrations, the Company is proposing to modify its plant facilities in order to blend its wells to meet the new arsenic standard. The storage tank project should resolve the arsenic standard requirement.
- D. The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.
- E. The Company has no delinquent Commission compliance issues.
- F. The Company has an approved curtailment plan tariff that became effective on September 10, 2004.

RECOMMENDATIONS

- 1. Staff recommends that the Company submit an application to extend its CC&N for areas other than the White Fence Farms Subdivision within 120 days from the effective date of the order issued in this proceeding.

2. Staff recommends that the Company replace Well #2's wellhead meter during the construction of the proposed storage tank installation or within one year from the effective date of the order issued in this proceeding, whichever is sooner.
3. ADEQ issued a Notice of Violation for plant deficiencies. The Company has applied for Water Infrastructure Financing Authority financing to address these plant deficiencies. The Company has submitted ADEQ documentation stating that the Company is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file with Docket Control, as a compliance item in this case, a copy of the ADEQ Certificate for Approval to Construct for its storage tank project by December 31, 2007. In addition, Staff recommends that the Company submit the ADEQ Approval of Construction for the storage tank project by May 31, 2008.

4. Staff recommends its annual water testing expense of \$1,394 be used for purposes of this application.
5. Staff recommends that the Company use Staff's depreciation rates delineated in Table B.
6. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C.
7. Staff recommends that Attachment A – Plant-in-Service be used as a guideline to evaluate the plant-in-service for purposes of this application.
8. Staff recommends adoption of the Offsite Hook-up Fee Tariff discussed in Section I and shown in Attachment B - HUF. Staff recommends that the Company submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

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A. LOCATION OF COMPANY

Ashcreek Water Company ("Company") serves a community located approximately two and one-half miles south of Pima and three miles west of Thatcher. Figure 1 shows the location of the Company within Graham County and Figure 2 shows the three certificated areas covering a total of 5/8-square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on November 20, 2006, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Bevan Barney, Interim Manager for the Company. The current system consists of two well sites and a distribution system serving approximately 84 customers. This rate filing is the Company's first rate case since its Certificate of Convenience and Necessity ("CC&N") was issued in Decision No. 55745, dated September 25, 1987.

A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Sites

Plant Items	Well #2	Well #6
Submersible Pump	1-Hp	3-Hp
Pumping Rate	25 GPM	50 GPM
Casing Size	8-inch	6-inch
Casing Depth	191 ft.	200 ft.
Meter Size	2" (not working)	2-inch
Bladder Tank	100 gal.	50 gal.
Chain Link Fencing	6' x 12'	10' x 10'
2000 Gal. Pressure Tank	(used as a sand trap tank)	

Table 2. Water Mains

Diameter	Material	Length
2-inch	PVC	1,835 ft.
3-inch	PVC	5,036 ft.
4-inch	PVC	24,283 ft.
	Total:	31,154 ft.

Table 3. Customer Meters

Size	Quantity
5/8 x 3/4-inch	* 111
3/4-inch	-
1- inch	-
1-1/2-inch	-
2-inch	-
Total:	111

* Note: The Interim Manger continues to find unrecorded customers connected to the water system.

Service Outside CC&N

The Company is currently providing service to approximately 84 customers, of which approximately 55 customers are located outside the CC&N in Sections 18, 7, and 6 of Township 7 South, Range 25 East, in Section 1 of Township 7 South, Range 24 East, and in Section 31 of Township 6 South, Range 25 East. These sections can be seen in Figure 2 – Certificated Areas.

Section 31 is located within the CC&N of Graham County Utilities, Inc. where the Company is serving approximately 30 customers in the White Fence Farms Subdivision that covers the southwest quarter. A Borderline Agreement approved in Decision No. 67951, dated June 21, 2005, approved the Company's provision of service to the White Fence Farms Subdivision.

Staff recommends that the Company submit an application to extend its CC&N for areas other than the White Fence Farms Subdivision within 120 days from the effective date of the order issued in this proceeding.

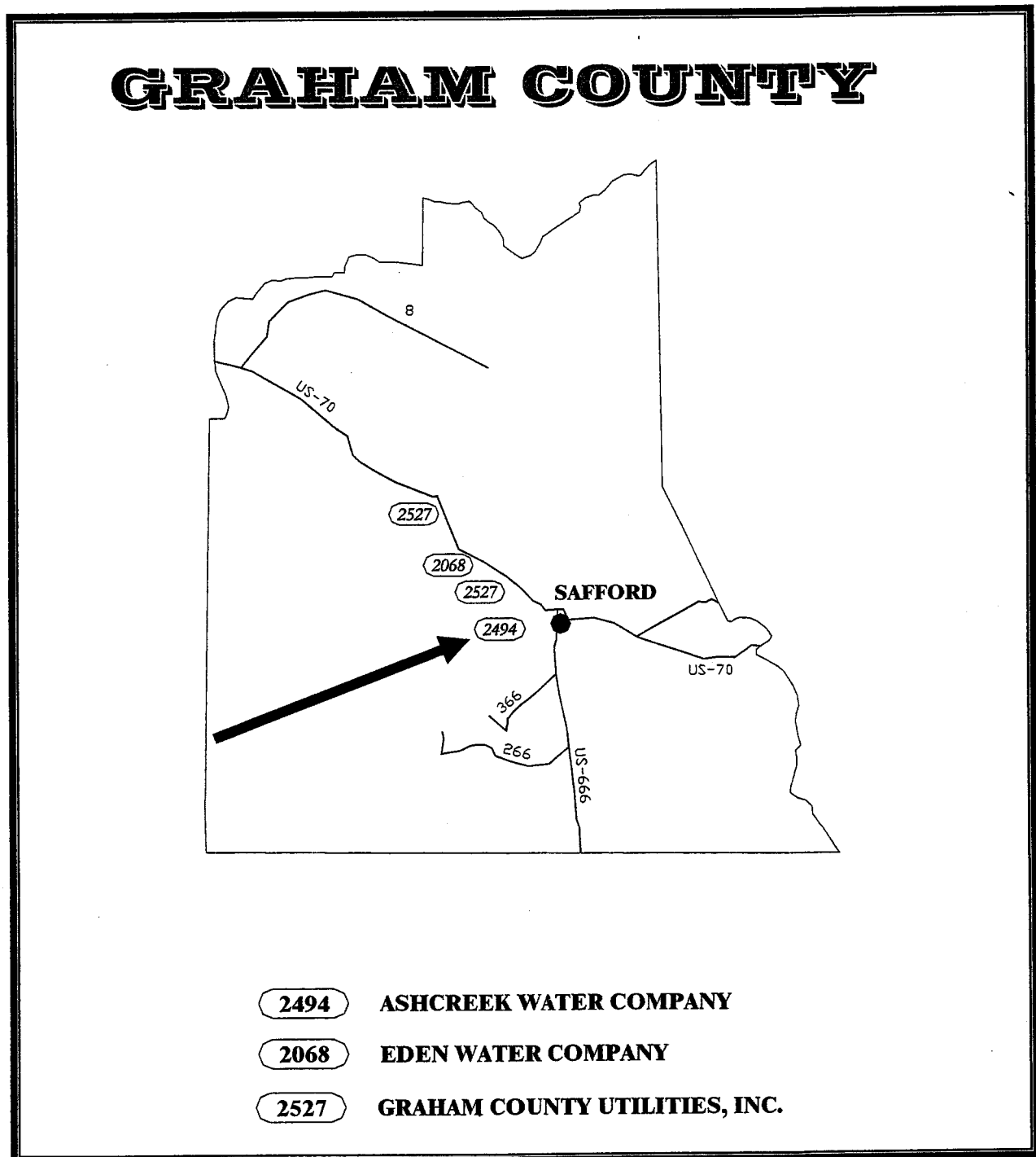


Figure 1. Graham County Map

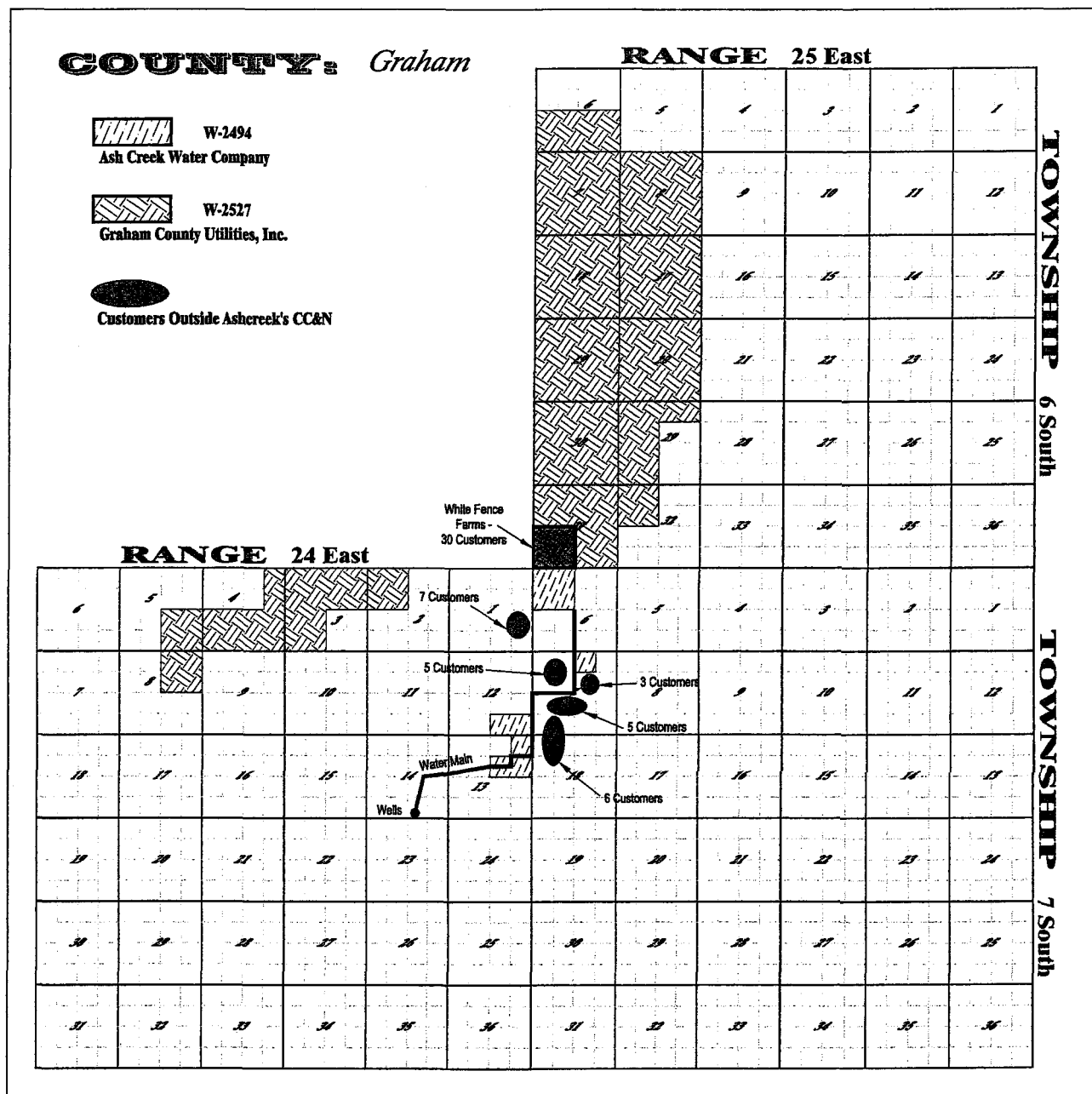


Figure 2. Certificated Areas

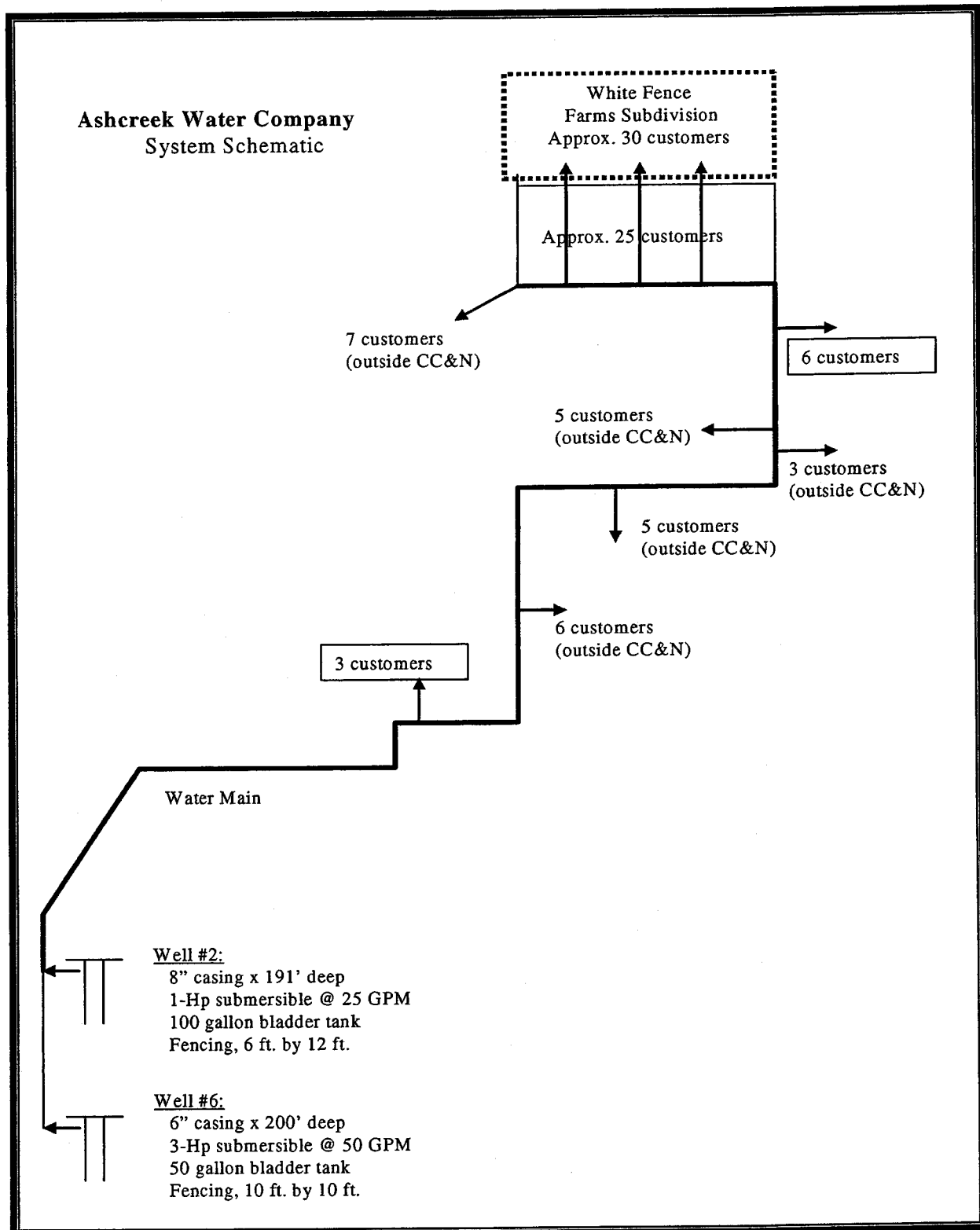


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 represents the water consumption data provided by the Company in its water use data sheet. Customer consumption experienced a high monthly water use of 538 gallons per day ("GPD") per connection in June and a low monthly water use of 168 GPD per connection in January for an average monthly use of 294 GPD per connection.

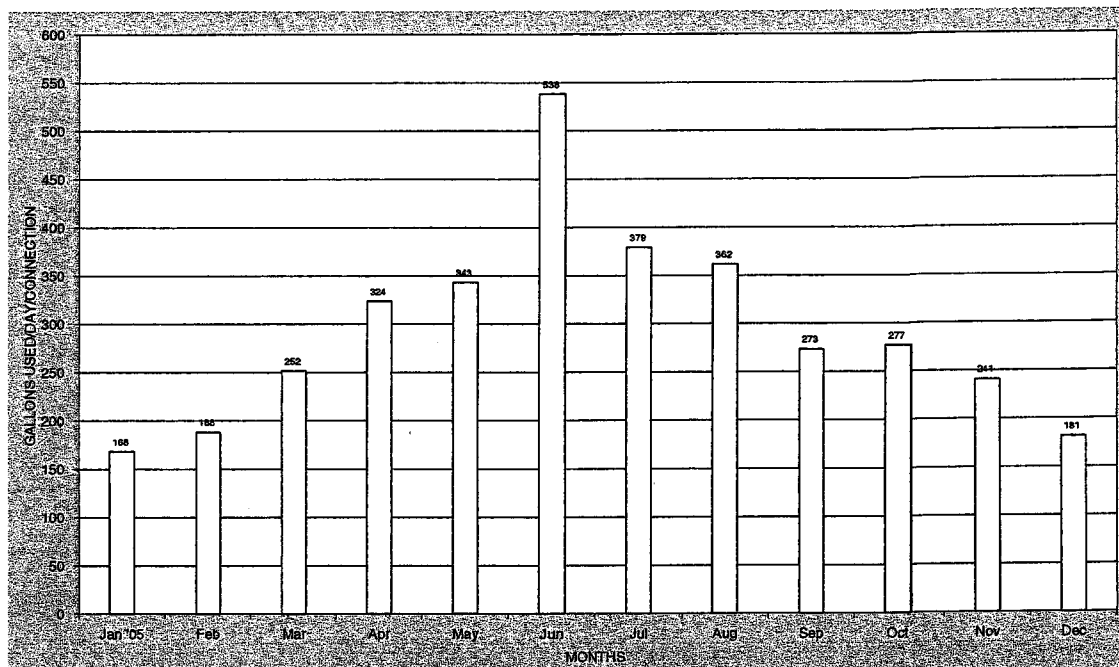


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. The Company reported 8,973,440 gallons of water sold and did not report the number of gallons pumped due to Well #2's operative wellhead meter. Based on the unknown gallons pumped, the water loss percent cannot be determined.

Staff recommends that the Company replace Well #2's wellhead meter during the construction of the proposed storage tank installation or within one year from the effective date of the order issued in this proceeding, whichever is sooner.

System Analysis

The system's current two source well capacity totaling 75 GPM, with no storage tank capacity, could adequately serve approximately 53 service connections. The system currently has 84

connections. The Interim Manager is aware of its inadequate storage tank capacity and is proposing the installation of a storage tank. This storage tank project is discussed below in Section E. ADEQ Compliance.

D. GROWTH

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have approximately 98 customers by 2010. Figure 5 depicts actual growth from 2001 to 2005 and projects an estimated growth for the next five years using linear regression analysis.

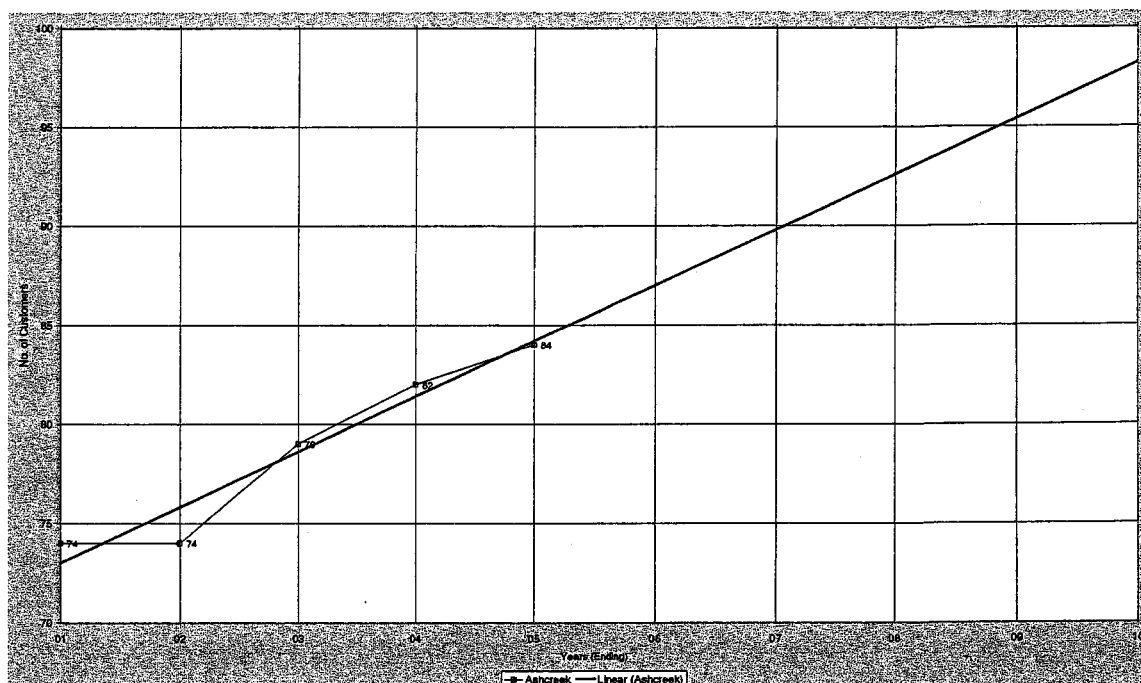


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

During an ADEQ field inspection on June 5, 2003, ADEQ discovered certain violations and on July 7, 2003, ADEQ issued a Notice of Violation ("NOV") for the following:

1. Failure to obtain an Approval to Construct ("ATC") – The Company extended service to the White Fence Farms Subdivision without obtaining an ATC.

2. Failure to obtain an Approval of Construction ("AOC") – The Company commenced service to the White Fence Farms Subdivision without obtaining an AOC.
3. Failure to maintain a pressure of at least 20 pounds per square inch ("psi") – The Company experienced pressure below 20 psi throughout parts of the system during the period of May 17 through May 19, 2003.
4. Failure to provide the required minimum storage capacity – The Company has no storage tank on the system. A system must be able to provide adequate supply and pressure to all parts of the system during periods of peak demand. A minimum of 50,000 gallons of storage is required on the system to meet seasonal peak demand based on information provided by the Company.

According to an ADEQ Compliance Status Report, dated August 11, 2006, that was submitted with the rate application; ADEQ reported no deficiencies and has determined that the Company's system, PWS #05-007 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On December 1, 2006, ADEQ issued its monthly update report on the status of the July 7, 2003 NOV. This update report stated that ADEQ is awaiting the final completion of the system improvements for the closure of the NOV and will continue to review monthly updates.

The Company is in the process of developing a tank site. The Company had selected a 2-1/2 acre tank site, approximately 500 feet north of Well #2, which appeared to be at the highest elevation to facilitate gravity-feed for the distribution system. However, due to the high arsenic level of Well #2 at 19 parts per billion, the Company is now considering a proposed tank site at Well #6 in order to address the storage capacity and arsenic compliances requirements. According to the Interim Manager, the above mentioned 50,000 gallons of storage has been reconsidered by ADEQ due to replacements of both well pumps that increased the combined capacities from 50 GPM to 75 GPM. For this reason, the Company elected to refurbish a Company-owned 20,000 gallon storage tank, and along with the second well's increased flow rate of 25 GPM, the water system will meet the required minimum storage capacity. This storage tank project, along with other capital improvement projects, is discussed in Attachment MSJ – 2, Engineering Report for financing.

Staff recommends that the Company file with Docket Control, as a compliance item in this case, a copy of the ADEQ Certificate for Approval to Construct for its storage tank project by December 31, 2007, and submit the Approval of Construction by May 31, 2008.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.07 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$1,900 during the test year by combining the testing costs and water operator's fees. Staff has reviewed the Company's testing expense and has recalculated the testing costs based on the Company's laboratory costs and additional monitoring requirements by ADEQ for Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company chlorinates its wells manually and therefore, is required to monitor for D/DBP. Table A shows Staff's annual monitoring expense estimate of \$1,394 with participation in the MAP.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per year	Annual Cost
Total coliform – monthly	\$30	12	\$360
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	\$38	1	\$38
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	\$420
Lead & Copper – per year	\$50	5	\$250
D/DBP:			
TTHM/HH5 – annual	\$326	1	\$326
Total			\$1,394

Note: ADEQ - MAP invoice for the 2006 Calendar Year is \$419.62

Staff recommends its annual water testing expense of \$1,394 be used for purposes of this application.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic Maximum Contaminant Level in drinking water from 50 parts per billion ("ppb") to 10 ppb. The Company reported its arsenic concentration for its Well #2 at 19 ppb and Well #6 at 3.2 ppb. Based on these arsenic concentrations, the Company is proposing to modify its plant facilities in order to blend water from its wells to meet the new arsenic standard. The storage tank project should resolve the arsenic standard requirement.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Company is not located in an Active Management Area ("AMA") and therefore, is not subject to any AMA reporting and conservation requirements.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent Commission compliance issues for the Company.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use depreciation rates by individual NARUC category on a going-forward basis.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's requested charges are somewhat similar to Staff's customary range of charges. After Staff discussions with the Company, the Company agreed to the lower end of Staff's customary range of charges. Therefore, Staff recommends approval of its charges as shown in Table C below.

Table C. Service Line and Meter Installation Charges

Meter Size	Company Current Charges	Company Requested Charges	Staff's Recommendation
5/8 x 3/4-inch	\$180	\$580	\$440
3/4-inch	\$220	\$620	\$520
1-inch	\$250	\$700	\$610
1-1/2-inch	\$375	\$875	\$855
2-inch	\$500	\$1,000	\$1,515
3-inch	No tariff	-	\$2,195
4-inch	No tariff	-	\$3,360
6-inch	No tariff	-	\$6,115

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff that became effective on September 10, 2004.

3. Evaluation of Plant-in-Service

Since this system is currently being operated by an interim manager and this filing is the Company's first rate case, a plant-in-service evaluation has been included in this Engineering Report. In its evaluation, Staff reviewed, a) the Company's Annual Reports from 1999 to 2005, and b) the submitted invoices with the rate application, in order to verify, adjust and/or reclassify

certain plant items so that the plant-in-service record reflects the actual plant facilities that were constructed in the field. The result of this evaluation is shown in Attachment A – Plant-in-Service.

Staff recommends that Attachment A – Plant-in-Service be used as a guideline to evaluate the plant-in-service for purposes of this application.

4. Off-Site Hook-Up Fee Tariff (Impact Fee)

In the rate application, the Company requested an Impact Fee of \$2,500 for each new service connection. According to the Interim Manager, this Impact Fee amount was adopted from the City of Safford. Staff supports the concept of an impact fee (“hook-up fee”) and recommends the adoption of the specific tariff language contained in Attachment B - HUF of this report.

To determine an appropriate fee amount for a 5/8” x 3/4” meter size fee, Staff used the capital improvement project amounts from the financing application and the water use data sheet to calculate its proposed hook-up fee amount:

Hook-Up Fee Factors:

Peak month usage:	1,372,230 gal. in June 2005
Number of customer during peak month:	85 residential customers
Peak Factor:	1.25
Estimated capital improvement project cost:	\$115,180
Well production from two wells:	75 GPM

Hook-Up Fee Calculation:

$$\frac{1,372,230 \text{ gallons} \times 1.25}{30 \text{ days} \times 85 \text{ connection} \times 1440} = 0.47 \text{ GPM per connection}$$

$$75 \text{ GPM} / 0.47 \text{ GPM per connection} = 159 \text{ connections}$$

$$\$115,180 / 159 \text{ connections} = \textbf{\$724 per connection}$$

$$\text{Hook-up fee per connection for a 5/8” x 3/4” meter} = \$724. \text{ Use } \textbf{\$1,000}$$

TARIFF SCHEDULE

UTILITY: Ashcreek Water Company
DOCKET NO. W-02494A-05-0562

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to **Ashcreek Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Ashcreek Water Company.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential or other uses, regardless of meter size.

III. Off-Site Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4 "	1	\$1,000
3/4"	1.5	\$1,500
1"	2.5	\$2,500
1-1/2 "	5	\$5,000
2"	8	\$8,000
3"	16	\$16,000
4"	25	\$25,000
6" or larger	50	\$50,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

- 1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).
- 2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall not be entitled to any refunds.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Developer's or Builder's construction schedule and water service requirements.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

MEMORANDUM

DATE: January 29, 2007

TO: Crystal Brown
Public Utilities Analyst V
Utilities Division

FROM: Marlin Scott, Jr. *m/sj*
Utilities Engineer
Utilities Division

RE: Ashcreek Water Company
Docket No. W-02494A-06-0561 (Financing)

Introduction

Ashcreek Water Company ("Company") has submitted a financing application to assist in funding the installation of five capital improvement projects. These five improvement projects are estimated at a total cost \$123,580 in which the Company is requesting \$113,380 with Water Infrastructure Financing Authority ("WIFA") indebtedness. The Company listed a Study Project at \$100,000 but did not include this study in the financing request. The Company operates a water system near Thatcher in Graham County.

Existing Water System

The existing system consists of two wells and a distribution system serving approximately 84 customers. The two wells produce a total production of 75 gallons per minute ("GPM") and the system has no storage tanks. The arsenic concentrations reported for Well #2 and Well #6 are at 19 parts per billion ("ppb") and 3.2 ppb, respectively.

Financing Application

The Company is requesting WIFA financing approval in the amount of \$113,380 to assist in funding five capital improvement projects. Brief descriptions of the projects follow:

1. Storage Tank Project: Initially, this project involved the construction and installation of a refurbished 20,000 gallon storage tank to be located on a purchased 2-1/2 acre parcel just north of Well Site #2. The total estimated cost was \$26,540.

According to the Interim Manger, due to Well #6's high arsenic level of 19 ppb, this storage tank project site has been reevaluated and will be moved to Well Site #6. The revised total estimated cost submitted by the Company is \$18,840 and with the removal of the 2-1/2 acre parcel of land at \$2,100, the adjusted total amount would be **\$16,740**.

2. Well Transmission Project: This project is the construction of 1,400 feet of 4-inch PVC water main to replace the 2-inch water line between Well #2 and Well #6. Estimated cost of this project is **\$22,400**. (The Company revised this amount from \$21,000.)
3. Close Loop Project: This project will construct 2,470 feet of 6-inch PVC water main on Melanie Street that will inter-tie four dead end water lines and loop the system. Estimated cost is **\$41,990**.
4. Flush Lines Project: This project will involve the installation of ten 4-inch valves throughout the system and replace an existing 2-inch pressure relief valve ("PRV") with a new 4-inch PRV. Estimated cost is **\$8,600**.
5. Mohave Project: This project will construct 1,420 feet of 6-inch PVC water main on Mohave Street in order to replace old undersized water mains. Estimated cost is **\$25,450**.
6. (Study Project at \$100,000 not included in financing request.)

In summary, Company's initial total estimated cost of projects: \$123,580. The Company's revised total estimated cost of the projects: \$117,280. Staff's adjusted total estimated cost of the projects: **\$115,180**.

Staff concludes that the five capital improvement projects are appropriate and Staff's adjusted cost estimate totaling \$115,180 is reasonable.

Arizona Department of Environmental Quality ("ADEQ") Compliance

During an ADEQ field inspection on June 5, 2003, ADEQ discovered certain violations and on July 7, 2003, ADEQ issued a Notice of Violation ("NOV") for the following:

1. Failure to obtain an Approval to Construct ("ATC") – The Company extended service to the White Fence Farms Subdivision without obtaining an ATC.
2. Failure to obtain an Approval of Construction ("AOC") – The Company commenced service to the White Fence Farms Subdivision without obtaining an AOC.

3. Failure to maintain a pressure of at least 20 pounds per square inch ("psi") – The Company experienced pressure below 20 psi throughout parts of the system during the period of May 17 through May 19, 2003.
4. Failure to provide the required minimum storage capacity – The Company has no storage tank on the system. A system must be able to provide adequate supply and pressure to all parts of the system during periods of peak demand. A minimum of 50,000 gallons of storage is required on the system to meet seasonal peak demand based on information provided by the Company.

According to an ADEQ Compliance Status Report, dated August 11, 2006, that was submitted with the rate application; ADEQ reported no deficiencies and has determined that the Company's system, PWS #05-007 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On December 1, 2006, ADEQ issued its monthly update report on the status of the July 7, 2003 NOV. This update report stated that ADEQ is awaiting the final completion of the system improvements for the closure of the NOV and will continue to review monthly updates.

The Company had selected a 2-1/2 acre tank site, approximately 500 feet north of Well #2, which appeared to be at the highest elevation to facilitate gravity-feed for the distribution system. However, due to the high arsenic level of Well #2 at 19 ppb, the Company is now considering a proposed tank site at Well #6 in order to address the storage capacity and arsenic compliances requirements. According to the Interim Manager, the above mentioned 50,000 gallons of storage has been reconsidered by ADEQ due to replacements of both well pumps that increased the combined capacities from 50 GPM to 75 GPM. For this reason, the Company elected to refurbish a Company-owned 20,000 gallon storage tank, and along with the second well's increased flow rate of 25 GPM, the water system will meet the required minimum storage capacity.

Conclusions

Staff concludes that the five capital improvement projects are appropriate and Staff's adjusted cost estimate totaling \$115,180 is reasonable. The Company is requesting \$113,380 for WIFA indebtedness approval to assist in funding the capital improvement projects. The construction of these improvement projects will assist in resolving and complying with ADEQ's Notice of Violation and meeting the new arsenic standard. No "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purposes in the future.